



500 Water Street  
Jacksonville, Florida 32202  
(904) 366-5210  
(904) 359-1216 (Fax)

Michael J. Ward  
Chairman, President  
Chief Executive Officer

September 14, 2007

The Honorable Charles D. Nottingham  
Chairman  
Surface Transportation Board  
395 E. Street, SW  
Washington, D.C. 20024

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SURFACE TRANSPORTATION  
BOARD  
2007 SEP 17 P 1:21  
MR. NOTTINGHAM

Re: Railroad Service Demands – CSX Transportation Inc. Fall Peak Planning

Dear Chairman Nottingham:

In response to your request, this letter provides detailed information on the steps that CSX Transportation Inc. (CSXT) is taking to prepare for the 2007 Fall Peak and beyond.

### **Demand**

While CSXT and the industry are seeing some softness in demand, the longer-range fundamentals of rail growth remain firmly in place. CSXT is moving rapidly forward with its strategic plans to leverage long-term growth with consistent, reliable operations and significant investments in additional track capacity, locomotives and rail cars, as well as staffing that meets current and forecasted demand. The trends that underlie future rail growth remain constant: population increases, more offshore manufacturing as well as domestic industrial production, relief for overcrowded highways, and the well-documented challenges of the trucking industry. CSXT is prepared to do its part to meet those challenges, but urges federal policymakers to continue to consider the fact that stronger railroad earnings support capacity expansion. Policymakers should reject misguided calls to re-regulate the industry through legislation or regulation.

CSXT and most other Class I railroads are experiencing softness in volumes in certain markets compared to 2006. Markets related to housing construction, such as lumber and other building products, are among those affected by current economic conditions. Additionally, automotive shipments have lagged as have intermodal shipments, the latter exacerbated in part by surplus truck capacity. Coal volume is trailing last year's levels when utilities were replenishing inventories, resulting in higher stockpiles that are consistent with prudent business practices. CSXT is effectively serving new, energy related markets such as ethanol, which is expected to exceed last year's shipments. Both renewable fuels and the company's coal, coke and iron ore businesses are among those that will benefit from further improvements in capacity and performance.

As you know, consumer demand has evolved over the years with a less pronounced Fall Peak in the transportation sector. This is due, in part, to a marked change in general public buying patterns that have extended purchases over a longer period, and the evolution of shipping and distribution patterns that are more efficient and take advantage of surplus capacity in non-peak seasons. In addition, while a spike in eastern grain shipments does occur in the fall, CSXT's Southeast animal feed business requires a year-round focus on maintaining a reliable CSXT pipeline from field to feed.

An important element in reliable rail service is forecasting future market demand. CSXT continues to improve its forecasting to ensure that adequate resources are available, both in the short term and longer range. The company regularly consults its customers to determine anticipated traffic on key corridors. CSXT's forecasting model, combined with extensive customer input, is critical to establishing orders for locomotives and rail cars, the lead times for which are 9 to 18 months, and to develop plans for additional track capacity. CSXT believes that the heavy volumes of 2005-2006 will return soon, and the company is prepared.

### **CSXT's Performance: Safety and Service**

#### **Safety**

Safety performance continues to improve, both in the prevention of employee injuries and train accidents. CSXT has reduced injuries 44% from 2004 to year to date, and reduced train accidents 42% in that same period.

#### **Service**

Consistent execution of the ONE Plan, combined with expanded track capacity in key lanes, is producing significant gains in service reliability. Continued investment in key resources, including both locomotives and freight cars, also is supporting improved reliability. Staffing remains at the level needed to support the operating plan.

Service measurements in 2007 are largely favorable to last year and show consistent, continuous improvement through the first eight months compared to last year. Year-over-year improvements have been made in nearly all measurements, which have produced the best customer satisfaction rating in the five years that it has been gauged by an independent third party.

Here are comparisons in service performance for the first eight months of 2007 versus the same period in 2006:

Terminal Car Dwell: Rail cars are spending nearly two fewer hours in terminals, a 7% improvement in the first eight months of 2007, compared to the same period last year. Third-quarter dwell of 23.5 hours through the end of August is improved 9% year-over-year.

**On-Time Originations:** More trains are departing on time for a 4% improvement in the eight-month period compared to 2006. On-time originations in the third quarter are 83% through August 31, an 11% improvement.

**Velocity:** Train speed on the line of road is averaging 20.5 mph, a 4% improvement in 2007 compared to the same eight months last year. Third-quarter velocity is 21.3 mph through August 31, an 8% improvement. Track capacity improvements have increased velocity on several key subdivisions. Velocity on the Fitzgerald (Ga.) Subdivision – a segment of the high-volume Chicago-Florida corridor – has improved 30% in 2007 since five capacity projects came on line last year.

**Cars On Line:** The total number of cars on the rail system is an indicator of network fluidity and operating efficiency. On a daily basis, CSXT is averaging nearly 900 fewer rail cars on line through the first eight months of 2007 compared to last year. So far in the third quarter, there are more than 4,000 fewer cars on line compared to last year.

Building from this solid foundation, CSXT will continue to focus on plan execution and capacity investment.

### **CSXT's Action Plan – Total Service Integration**

Through the balance of 2007 and into next year, CSXT is focusing on implementation of an initiative called Total Service Integration. TSI is focused on closely aligning customer needs and CSXT's operating capabilities. The goal is to further improve service reliability while increasing train efficiency and utilization of both CSXT-owned and privately held rail equipment. This involves working with existing customers to maximize operating efficiencies through adjustments, where possible, to target train sizes, track capacity, loading and unloading processes, and operating plans. New service products will be designed to meet customer needs reliably while maximizing efficiency. TSI will improve customer service and efficiency, and is a natural evolution of the gains achieved through disciplined execution of the operating plan.

### **Capital and Capital-Related Improvements**

Infrastructure improvements and other capacity enhancements are under way, including track expansions, construction of or expansion of intermodal capacity, and continued investment in locomotives and rail cars. CSX investment will total \$1.7 billion in 2007, up from \$1.4 billion in 2006, and well over the \$1 billion the company has historically spent on capital projects.

#### **Track/Terminal Capacity**

CSXT is in the second year of a \$250 million, multi-year program to expand track capacity on its Chicago-Florida route and on its Chicago-New York City route with extensions of existing sidings and construction of new ones.

This work is enabling CSX to meet demand for freight service to the rapidly growing Southeast while continuing to improve service to the populous Northeast. CSX Intermodal recently has opened a new terminal at Chambersburg, Pa., while work continues on expansion of the terminal at Fairburn, Ga., near Atlanta. Plans are moving forward to develop additional terminal capacity in Central Florida and northern Ohio.

In addition to the work described above, CSXT is eliminating mainline through-train service in downtown Waycross in southern Georgia, and double-tracking an existing line that bypasses the city. This will improve safety, train efficiency, and reduce blocked crossings and other inconveniences.

#### **Equipment – Locomotives**

CSXT is acquiring 202 new, high-horsepower locomotives, an increase of 100 from 2006. The company took delivery of 102 new 4400-horsepower units in the first half of this year, and will accept an additional 100 units in the fourth quarter. With retirements of older models, total locomotive fleet count is flat compared to 2006.

Though overall carload volumes are down, fleet horsepower and tractive effort are up 1.5% and 2% respectively compared to last year. CSXT will continue to upgrade its locomotive fleet with the addition of another 100 units in the first half of 2008.

#### **Equipment – Rail Cars**

CSXT's freight car investments are focused on meeting customer equipment needs where business levels, both current and forecasted, justify such spending. CSXT is spending \$110 million on freight car repairs, leases and purchases in 2007. The company uses a rigorous investment threshold of customer demand and long-range forecasting to determine when and how much to invest in its car fleet.

CSXT is currently on or ahead of schedule on its freight car repair program. Car supply is expected to meet projected demand in all major markets. In fact, some surpluses exist due to improved railroad performance and diminished demand. CSXT and other Class I railroads continue to leverage opportunities to minimize empty mileage and improve customer service through car pools.

#### **Employees**

Staffing is sized properly to meet projected Fall Peak demand. The trainmen and engineer staff is up 2% compared to September 2003. Several productivity initiatives are under way in train and engine service staffing. These initiatives include an innovative agreement with the Brotherhood of Locomotive Engineers and Trainmen that provides those employees with an immediate wage increase and links further increases to meeting company performance goals. Other factors include capacity improvements that support more fluid train movements and overall improved operations.

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For the first 35 weeks of the year, delays due to insufficient crew availability are down 48% compared to 2005 and down 28% compared to 2006.

### **It Starts with the Customer**

CSXT communicates with its customers on a regular basis through its many Sales & Marketing, Customer Service and Operations professionals. Communication also includes instruction in fully leveraging the ShipCSX web-based tools. CSXT continues to host customer forums to both provide hands-on training in electronic tools and gather valuable customer input. The company's web site, [www.csx.com](http://www.csx.com), provides information about service plans and maintenance curfews, and also features shipment status tracking.

### **Conclusion**

Longer-term, CSXT is participating in substantive discussions on public-private partnerships that can expand freight and passenger capacity and further leverage rail's inherent environmental advantages.

With CSXT operating safely, more reliably and efficiently, and with the addition of capacity and other resources, the company expects to meet demand during the 2007 Fall Peak and beyond. I look forward to continuing to work productively with our customers, our feeder lines, other Class I railroads, and the STB to meet the challenges ahead.

Sincerely,

*Michael Ward*